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# In the loop: multilevel feedback and the politics of change at the IMF and World Bank

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How can we integrate the agential influence of state preferences and the structural influence of social environments in models of change within international organisations? Through an analysis of the central aspects of the Poverty Reduction Strategy Paper (PRSP) initiative, this article argues that in isolation neither of the two dominant accounts of international organisations — the principal-agent (PA) and constructivist approaches — is able to adequately capture the progression of the initiative. Rather, I show that the evolution of the PRSP initiative is best conceptualised as an Archerian morphogenic cycle, whose unfolding can be understood by synthesising elements of the PA and constructivist approaches. The morphogenic approach provides an analytic framework capable of tracking the process of multilevel feedback from state socialisation through to policy operationalisation, and for the input of creditors, the International Financial Institutions (IFIs), and borrowing countries to be mapped.

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## Introduction

Who writes the rules for the international financial institutions, and how do these rules change?<sup>1</sup> These questions are central to the study of the operations of the World Bank and International Monetary Fund (IMF). Now in its ninth year of operation, the PRSP initiative has recently begun to receive the attention of academic analysts (Craig and Porter 2002; Cheru 2006; Sumner 2006; Weber 2006), but as yet a systematic analysis of the changes in IFI practices that have been engendered by the Initiative has not been presented. This article addresses this lacuna, and also contributes to the growing literature enhancing our understanding of change in the rules and practices of the IFIs by building on — and synthesising — principal-agent (PA) and constructivist analyses of International Organisations (IOs) (Jupille *et al.* 2003; Nielson *et al.* 2006; Weaver and Park 2007). The empirical content of the article is drawn



from an analysis of IMF archival material, publicly available IMF and World Bank documents, G7 ministerial declarations, and interviews with Bank and Fund staff.<sup>2</sup>

In this opening section of the article, I provide an overview of the conceptual lessons that can be drawn from the case study under analysis, and an introduction to the Poverty Reduction Strategy Paper (PRSP) initiative. In the Models of Change in International Organisations section, I then provide a fuller account of the PA and constructivist interpretations of IOs, examine where these approaches assume the drivers of change in IOs to be, and outline the advances that can be made by combining the insights of the approaches around a morphogenic conceptualisation of change. In the third, fourth, and fifth sections I outline the evolution of the central aspects of the PRSP initiative, which are namely multilateral debt sustainability, poverty-reduction-centred development, and the promotion of broad societal participation in the formation of restructuring programmes. I conclude the article with a review of the conceptual lessons that are revealed through the analysis of the PRSP initiative.

The central lesson of the article is that the evolutionary progression of the PRSP initiative is not adequately covered by either of the dominant approaches to the study of IOs. Although the PA approach usefully foregrounds the importance of powerful states in articulating the agenda for change, and offers insight particularly into the circumstances in which states are able to compel IOs to introduce change, the constructivist approach directs attention to both the social environment that (partially) determines the content of states' demands,<sup>3</sup> and to the capacity of IOs to define the precise meaning of these articulations. In addition, neither of the dominant approaches adequately interrogates the input of borrowing countries into the continuing process of 'fine-tuning' and operationalising the demands for change. By conceptualising the process of change in terms of morphogenic cycles, we are able to integrate and build on the contributions of the PA and constructivist approaches. By viewing the relationship between agents and structures as codeterminant, the morphogenic approach advances an understanding of social change as a dynamic feedback process: the structural environment conditions agents; agential interactions re-form structures; altered structures re-condition agents, *ad infinitum*. When applied to the realm of IOs, this conceptualisation of change allows us to see clearly how the mechanisms upheld by both the PA and constructivist approaches are in evidence during the case under investigation. These points are elaborated further in the second section of the article.

The PRSP Initiative was formally announced by the Boards of the World Bank and IMF at their Annual Meeting in December 1999, when it was presented as both a key mechanism for distributing debt reduction under the enhanced Heavily Indebted Poor Country (HIPC) initiative, and as a broader



alteration of the way in which the Bank and Fund worked with the poorest developing countries. In order to receive a potential 90 per cent reduction of International Development Association (IDA) debt within the World Bank and Poverty Reduction and Growth Facility (PRGF) debt within the Fund, countries were required to produce a PRSP and demonstrate a commitment to implementing the policy package contained therein. According to the IFIs' guidelines on the PRSP initiative, the Paper itself was to be produced by indebted country governments in consultation with civil society and other stakeholders, and must present an analysis of the form and extent of poverty within the country, a programme for poverty alleviation linking specific health and educational policies into broader structural reforms aimed at improving economic growth, and a timetable for the implementation of this programme. Once a Paper has been approved by the IFIs, it is supposed to then form the basis of all interactions between the IFIs and the indebted country (World Bank and IMF 2000: 3).

When announced, the core elements of the PRSP Initiative were heralded as representing a significant shift in the practices of the IFIs. Oxfam International suggested that the PRSP framework 'signalled a dramatic change in the way the IMF and World Bank do business in poor countries' (Oxfam International 2000: 3), while the IFIs themselves suggested that the Initiative went 'well beyond' a simple revision of the way in which concessional finance was provided (World Bank and IMF 2000: 1). As this article demonstrates, although the incorporation of debt reduction into the operations of the IFIs represents a significant shift in practices, the changes that have emerged as the poverty reduction and participatory aspects of the initiative have evolved are more limited.

## **Models of Change in International Organisations**

The conventional wisdom within IPE holds that the actions of the World Bank and IMF are largely driven by their major quota-holding member states. The influence of the US and other G7 states in securing easy access to IFI resources for their allies has been examined in this regard (Stone 2004: 578), and the reports of the long-arm of the 'US Treasury-Wall Street Complex' in determining the general direction of the IFIs further fits this picture (Wade 2002). However, recent research has added greater depth to our understanding of the strategic relationships between states and IOs, with scholars beginning to consider the means through which IOs can potentially exercise a significant degree of autonomy from their member state principals. Throughout this section, I outline the conceptual developments that the PA and constructivist approaches have brought, and present the synthesis that is called for in order to adequately capture the mechanisms that shaped the evolution of the PRSP initiative.



Of the two main approaches to studying IOs that are outlined here, the PA model is more closely aligned with the conventional wisdom in IPE. At its core, the PA approach attempts to 'examine IOs in their roles as agents variously responsible to member states', and to address the two linked questions of 'why do states delegate certain tasks and responsibilities to IOs?' and 'how do states control IOs once authority has been delegated?' (Hawkins *et al.* 2006: 4). Drawing on the insights of economic analyses into relationships where one party hires another to perform a function on its behalf, the approach analyses the tension between the gains that can be made by states' delegation of authority to, and the imperfect mechanisms through which they attempt to maintain control of, an IO (Bauer 2002: 382, Pollack 2003: 134–6).

When addressing the issue of 'why delegate?', PA theory begins with the assumption that gains can be made through a division of labour and specialisation. In the realm of inter-state relations, a number of additional gains are identified that might induce states to delegate to an IO, including aiding collective decision-making amongst member states, resolving disputes, and locking-in policies. The larger the potential gains in these areas, the more likely it is that states will delegate authority to an IO (Lake and McCubbins 2006: 342–4).

In relation to the latter of the two guiding questions of PA investigations, a great deal of attention is paid to the mechanisms of control that are available to states. Generally, providing an IO is producing policies that are broadly consistent with principals' preferences, states will leave the IO to act on its own: however, when intervention is deemed to be necessary, a range of control mechanisms are available to states to reign in an IO's activities (Nielson and Tierney 2003: 245). Following a rationalist approach, states are said to structure the incentives of agents in such a way that it is in the interests of agents to faithfully carry out principals' wishes. Mechanisms of control include the balance between rules and discretion in the founding contract of the IO, screening and selection procedures of the IO to which a task is delegated (especially the selection of management and staff), institutional checks and balances within the IO, monitoring and reporting requirements, and sanctions (Hawkins *et al.* 2006: 26–31). An important additional mechanism of securing IO compliance relates to the control by principals of IO financial arrangements. In their relationships with the World Bank and IMF, for instance, principals' deliberate under-funding so that they can employ supplementary finance as a bargaining tool, and their increasing use of trust funds, have been highlighted as mechanisms of increasing their leverage over the IFIs (Gould 2003; Weaver 2007: 500; Broome 2008: 126).

Yet, in order to effectively utilise the tools of compliance at their disposal, states must be able to monitor the output of their agent-IOs. The task of monitoring is often highly complex, and it is especially difficult to assess the



impact of IOs on complicated global issues. The more readily observable and measurable an IO's 'progress' toward a stated goal is, the greater scope there is for control of the agent (Kassim and Menon 2003: 124; Worsham and Gattrell, 2005: 366; Nielson *et al.* 2006: 111–2; Nosal 2006: 1093; Lane 2007: 616). As a recent IMF evaluation of internal reform efforts noted, change had been most effectively implemented when principles have clearly articulated the outcomes that they wished to see, and set up quantifiable targets with which to monitor them (IMF 2007: 6).

As the following empirical sections show, the PA approach is of use in foregrounding the importance of creditor-state principals in setting the agenda for the PRSP initiative, and in directing attention to the ability of states to use compliance mechanisms to ensure that the IFIs remain 'on-task' with their goals. However, the approach suffers from two significant lacunae, which need to be addressed in order for a fuller appreciation of the evolution of the PRSP initiative to be gained. First, the question of the socialisation of states must be addressed, an issue that reveals an important lesson about the drivers of change in the IFIs. Second, attention must be directed to the complex process through which broad policy goals are translated into concrete operational practices in the IFIs. Although the existence of this latter process is implicit within the PA approach, and indeed could be taken as evidence of the IO simply doing its job of accomplishing delegated tasks, in the case of the PRSP initiative the initial goals that were set were so broad that it was only through the subsequent feedback process that their operational content was defined.

In a marked contrast to the PA model, the constructivist approach attempts to go beyond an examination of the conditions that allow for IO autonomy, instead examining what motivates IOs to act and why they use their autonomy in particular ways. This approach, its advocates suggest, is particularly apposite to the study of IOs, as it can uncover the subtle and less visible ways through which they manufacture autonomy and deploy power in the international arena (Weaver 2007: 497). Broadly, two linked but separable aspects of the constructivist approach to IOs can be distinguished. The first is an emphasis on the capacity of IOs, by using their position of authority, to frame the way in which an issue is perceived by the relevant community of policy-makers, and the second is the view of IOs as containing strong bureaucratic cultures that inform how external demands will be interpreted.

Regarding the former aspect, for constructivists IOs are thought to be powerful 'not so much because they possess material or informational resources but, more fundamentally, because of their authority to orient action and create social reality' (Barnett and Finnemore 2004: 6). Through a process of classification, fixing of meaning and diffusion of norms, IOs are able to not only solve the problems and pursue the collective interests that were encoded by states in their founding principles, but also to help define and re-define these



problems and collective interests. According to constructivists, the dissemination of international norms within a social environment shapes state behaviour by framing the way in which policy-makers view an issue (Immergut 1998: 14–9; Alderson 2001: 421; Johnston 2001: 488).

The second aspect of IO power as seen by the constructivist approach is the tendency to filter and interpret external stimuli through a strong bureaucratic culture. It is argued that the bureaucratic culture, the rules and procedures that are consciously or sub-consciously shared by IO staff, pervasively influence bureaucrats' views of the world and inform their views of appropriate action. Bureaucratic culture, for Weaver, is defined as

The set of 'basic assumptions' that affect how organisational actors interpret their environment, select and process information, and make decisions so as to maintain a consistent view of the world and the organisation's role in it. (2008: 37)

Bureaucratic culture is said to make change within IOs highly path dependent, as staff are more receptive to new goals that can be easily accommodated within their existing worldview. If a new goal can be seen to cohere with the organisation's existing knowledge about how to realise its mission, staff are likely to attempt to actively implement it (Barnett and Finnemore 2004: 64). It has been suggested, for example, that the technocratic, rules-based self-image of IMF staff, and their near homogeneous macro-economic educational background, has meant that changes in staff practices occur when they can be shown, according to acceptable econometric standards, to contribute to the overall goal of advancing monetary stability and aggregate economic growth (Barnett and Finnemore 2004: 68–9). In contrast, the more heterogeneous educational background of Bank staff, and their immersion in the 'messy' world of developmental economics, are said to have made the organisation more flexible and accommodating of a range of supplementary goals (Vetterlein 2006: 125).<sup>4</sup>

As is demonstrated through the elaboration of the case study over the following sections, the value of the constructivist approach is in showing the important role played by IOs in fixing the meaning of loosely defined concepts, and in diffusing norms that impact on the socialisation of states. This process can be seen to occur not only after an IO has been 'issued its orders' by its state-principal, but can also be seen in IOs' elaboration of the social environment that informs states' preferences. However, by foregrounding the manner in which intersubjective contexts determine outcomes, the constructivist approach can obscure the role of agency, particularly the agency of powerful states, in re-shaping the social environment within which IOs must act.

To sum-up the dominant models of change in IOs, then, the PA approach is primarily interested in the benefits from delegation and the mechanisms of



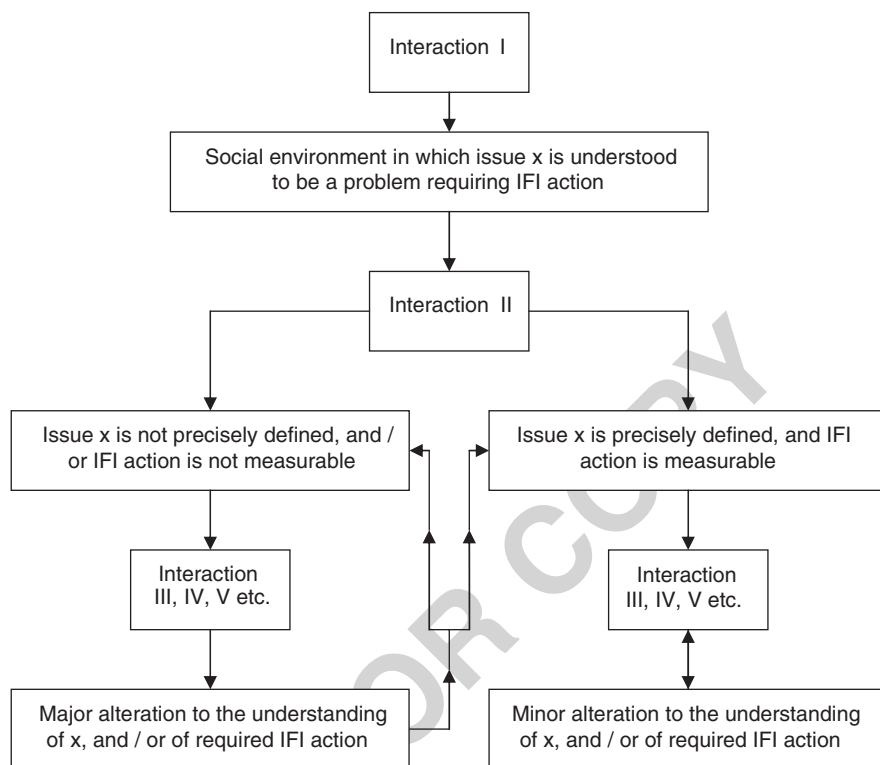
control available to states, whereas the constructivist approach focuses analysis on the level of the IO, and highlights the importance of social environments in determining change. Following the example laid down by a number of innovative contributions to the project of understanding change in IOs (Haas and Haas 2002; Jupille *et al.* 2003; Pollack 2003; Nielson *et al.* 2006; Weaver and Park 2007), it is the position of this article that rather than viewing the PA and constructivist approaches as offering competing interpretations, our understanding of processes of change in IOs is best furthered by viewing them as complementary. By conceptualising change in IOs as occurring through ‘morphogenic cycles’ (Archer 1985; Carlsnaes 1992; Adler 1997: 330), it is possible to advance a framework capable of synthesising the PA and constructivist approaches.

The central contribution of a morphogenic approach is that it provides an analytic framework around which to integrate structure and agency in the process of change in IOs. In isolation, the PA approach foregrounds the importance of (state-)agency at the expense of examining intersubjective structures, whereas the constructivist approach foregrounds the importance of ideational structures in a manner that can obscure the role of agency. With its conceptualisation of the relationship between social structures and agents as codeterminant, the morphogenic framework allows us to view social change as ‘endless cycles of structural conditioning/social interaction/structural elaboration’ (Archer 1985: 61), which integrates structure and agency rather than privileging one or the other. To give an illustrative example, although the PA approach can be employed to convincingly examine the important role of states in pressing the IFIs to cut back the number of conditions attached to loans (Gould 2006), an examination of the social environment that informed states’ understanding of excess conditionality as a problem in need of remedial action would provide a more comprehensive account of the process of change in this policy area. Hence, with the morphogenic approach, the PA approach’s placing of causal primacy with exogenously given state preferences can be combined with the focus on intersubjective structures of the constructivist approach.

In addition, the morphogenic approach provides the means with which to expand the focus of analysis from the ‘high-level’ interactions between creditor states and IFIs, to consider the often unexamined ‘low-level’ interactions between borrower states and IOs that can be of crucial importance in determining the evolution of IFI policy changes. When looking at policy outcomes using the morphogenic approach, one can see that

Policy actions become intertwined with their multifarious structural consequences, and together conjoin in constituting the future dispositions of actors and hence also their intentions and subsequent actions ... This





**Figure 1** Morphogenic model of change in IOs.

implies a feedback loop [in the process of determining of outcomes]. (Carlsnaes 1992: 261)

As the following empirical sections demonstrate, the morphogenic approach captures the complex, multilevel feedback process through which G7 articulations, themselves conditioned by a pre-existing structural environment, have been taken-up and shaped by the IFIs into a policy framework, before then further evolving through subsequent interactions with borrowing countries. Figure 1 provides a schematic presentation of a morphogenic model of change in IOs, and serves as a template around which the following analysis of the evolution of the core aspects of the PRSP initiative is structured.<sup>5</sup>

## The PRSP Initiative and Multilateral Debt Relief

The PRSP Initiative was formally announced by the Boards of the World Bank and IMF at their joint meeting of December 1999, when it was presented both



a means of operationalising debt reduction and of transforming the relationship between the IFIs and indebted countries. Through this third section of the article, I provide a reading of the evolution of the PRSP initiative in terms of morphogenic cycles, around which the insights of the PA and constructivist approaches can be synthesised. There are three central aspects to the initiative, which are namely:

- Formalising IFI debt reduction to ‘sustainable’ levels.
- Placing poverty-reduction at the centre of the IFIs’ missions.
- Encouraging broad societal participation in the formation of restructuring programmes.

Each of these aspects shall be examined individually, before the final section of the article reflects upon what they reveal about change in IOs. With each of these aspects of the PRSP initiative, clear evidence can be seen of the main creditor states communicating tasks to the IFIs that were then incorporated into the initiative as announced in 1999. At the same time, however, analysis of the social environment preceding creditor states’ pronouncements, and of the factors that have interacted in determining the manner in which the central aspects of the initiative have been operationalised, show that it is necessary to hold a nuanced conceptualisation of the process of change in IOs.

Regarding the formalisation of the process of multilateral debt reduction, changes in the social environment occurred during the decade leading up to the PRSP initiative. The issue of IFI debt write-off was first raised within the G7 countries as far back as 1987, at the time when the Fund launched the Enhanced Structural Adjustment Facility (ESAF). When the Fund proposed the plan to extend the repayment schedules of loans and lower the rates of interest through the ESAF, the UK government attempted to gather support amongst the G7 for write-off as a solution to problems of heavily indebted countries. However, UK efforts to unite the G7 were unsuccessful, and refinancing through the ESAF emerged as the favoured route (Evans 1999: 271). The issue of IFI debt write-off rose up the agenda of the international debt regime again during the 1990s. By 1992, a number of individual NGOs had begun to gear up their activities in regard to multilateral write-off, focussing their attention in particular on lobbying G7 governments to exert their influence within the IFIs. Over the next few years, there was a snowballing of efforts by NGOs working on debt-related issues, and in 1995 the World Bank itself made an interjection into the issue. Shortly after James Wolfensohn became President of the Bank a small task force was established to investigate the issue, and a working paper that was supportive of multilateral debt relief was leaked to the press (Callaghy 2004: 29). Indeed, Wolfensohn has been credited with playing a key role in maintaining debt reduction as a high



profile international issue during his presidency (Mallaby 2006).<sup>6</sup> It is with this background context in mind that the pronouncements of the G7 states are best understood.

The 1995 G7 Halifax meeting was taken as an opportunity to put pressure, in a public arena, on the IFIs to incorporate debt reduction into their operations. The Halifax Communiqué reads:

We recognise that some of the poorest countries have substantial multilateral debt burdens. We will encourage the Bretton Woods institutions to develop a comprehensive approach to assist countries with multilateral debt problems, through the flexible implementation of existing instruments *and new mechanisms where necessary*. (Paragraph 29, emphasis added)

This declaration is particularly important because it provides evidence of the G7 suggesting for the first time that significant operational changes on the part of the IFIs might be necessary in this issue area (Callaghy 2004: 29). Although, by this time, there was a growing level of support within the Bank for moves in this direction, particularly because the heavy debt burden could be understood in terms of its negative impact on the Bank's developmental mission,<sup>7</sup> in the IMF there is evidence of much greater resistance. Recently released archival documents show the depth of this resistance from the Fund.

The majority of the discussion during the IMF Executive Board meeting (EBM) on 24 February, 1995 was on the issue of the IFIs and heavily indebted states. Michel Camdessus, then Fund Managing Director, opened the meeting with a synopsis of IMF research into external debt sustainability. Camdessus relayed the following information to those present:

Our conclusions are limited but moderately reassuring. That after reaching a hump, the burden of multilateral debt service will be declining for most poor countries. (IMF 1995: 1)

Although Camdessus acknowledged that there were 'six or seven' countries for whom debt service may become 'too burdensome', he suggested that support for these could come primarily from bilateral and regional sources (IMF 1995: 3). In response to this statement, Huw Evans, the UK Executive Director, presented the following combative reply:

My conclusion is that the problem is more serious than the Fund staff paper admits ... The conclusion of the staff paper is that: *if* these countries improve their economic performance, *if* all new multilateral and bilateral lending is concessional, *if* the downward trend in concessional flows and grants is reversed, and *if* there are no adverse shocks, then the number of countries unable to manage their multilateral debts will be small. It is not



prudent to base policy upon such a combination of favourable outcomes. (IMF 1995: 9–10 emphasis added)

When the issue of IFI debt write-off was again discussed in detail at an EBM in February 1996, the minutes record similar strong support for the idea from the US Executive Director, Karin Lissakers. Lissakers outlined the official US position in opposition to that of some IMF members of staff:

We reject the argument of some speakers that debt reduction would weaken the multilateral institutions ... It is not contrary to good financial management that one recognises bad loans and that one follows up with specific measures. *It is not contrary.* While there are differences between the Fund and the World Bank ... it is not inconsistent and it is not contrary to good management of these institutions if we set out an explicit programme of debt reduction. (IMF 1996a: 31 emphasis added)

Similar sentiments from Lissakers are recorded in the minutes of the EBM 6 weeks later, on 8 April (IMF 1996b: 3), which suggests that resistance from the Fund to debt relief was both ongoing and deep-seated.

Despite this reluctance from the IMF to classify multilateral debt as a problem requiring action on its part, in late 1996, the Fund and the Bank announced the birth of systematic IFI debt reduction through the HIPC initiative. In doing so, the IFIs contributed to the fixing of the meaning of ‘unsustainable debt’, and also helped to define it as a problem requiring remedial action on their part. In order to be eligible for debt relief from the IFIs, it was announced that countries must be in an ‘unsustainable’ debt position, which was defined as either a debt-to-export ratio of 150 per cent or, for open economies, a debt-to-revenue ratio of 250 per cent. For these countries, it was decided that for the first time their debts to the IFIs could be systematically written off in order to bring them toward a ‘sustainable’ position. In 1999 debt reduction was deepened, when it was announced that upon completion of a PRSP up to 90 per cent of a country’s debt to the Bank and Fund could be written off (Callaghy 2004: 17).

An important supplementary development in the IFI debt reduction practices was the extension of the amount of relief to 100 per cent. In July 2001, in the face of calls from NGOs and some political representatives for the extension of multilateral debt relief to 100 per cent, the IFIs released a joint paper explaining the reasons for their opposition to such a development. The paper suggested that such a level of reduction is not necessary by referring to the resources that had already been released through existing mechanisms, and by outlining the likely detrimental effects to other IFI concessional lending that would result from the reduction. It is suggested that further reductions would lead to ‘a direct dollar-for-dollar reduction in IDA’s ability to make future

credits to poor countries', and that 'debt cancellation would deplete the resources of the PRGF Trust and force the closure of the facility' (IMF and World Bank 2001: 1–4). Whereas previously the Bank had 'made sense' of the initial calls to introduce debt reduction into its practices in the mid-1990s in terms of its contribution to developmental goals, the calls to extend reduction to 100 per cent were met with a different response. In contrast, these calls, as the above response shows, were understood as being antagonistic to its capacity to function as a bank.<sup>8</sup> The opposition from the Fund, which expressed scepticism that the supposed benefits of debt reduction had not been adequately demonstrated in terms of its contribution to macroeconomic stability or growth, remained constant.<sup>9</sup>

Regardless of the very public opposition of the IFIs to the extension of the debt reduction ceiling to 100 per cent, under intense public and NGO pressure the G7 in 2005 issued a call for them to implement such a policy through the Gleneagles Communiqué (G7 2005: Paragraph 29). In the following year, a new initiative was announced by the IFIs to allow for the full cancellation of the debts owed by the poorest borrowers to the Bank and Fund: the Multilateral Debt Relief Initiative (MDRI). As was the case with the previous 90 per cent reduction, the granting of debt write-off under the MDRI is conditional on the production of a satisfactory PRSP by an indebted country government (IDA 2006: 1–3).

The continuing dynamism of the issue of IFI debt reduction and debt sustainability can be seen in the recent development of the Debt Sustainability Framework (DSF) by the IMF and World Bank. Through the DSF the IFIs have moved to reformulate the policy response norm to the problem of unsustainable debt, from one of debt write-off by the IFIs, to one of responsible borrowing by poor countries. The DSF was launched in response to IFI research findings that, following IFI debt reduction, borrowing from domestic and bilateral sources was hindering several countries' transition toward 'sustainable' overall debt levels. With the DSF, the IFIs now provide borrowing 'guideposts' to countries that have benefited from debt relief, and can adjust their own lending in the light of above-target borrowing (IDA 2006: 1).

How, then, should we understand the evolution of the multilateral debt reduction aspect of the PRSP initiative? Figure 1 provides a schematic representation of the morphogenic approach, around which a comprehensive account can be framed. At the beginning of the cycle (Interaction I), we see the influence of the World Bank (and NGO groups) in contributing to the elaboration of a social environment in which multilateral debt was understood as an issue requiring IFI remedial action. This structural context conditioned the G7 1995 call for a new approach from the IFIs to deal with multilateral debt, and the IFIs' quantification of sustainable debt and reduction quotas

(Interaction II). With the establishment of this clear understanding of the issue, and of the action required by the IFIs, further interactions led to small changes at the margins (i.e. the morphogenic cycle bifurcated along the right-hand pathway in Figure 1). G7 pressure to increase the proportion of debt eligible for reduction and the IFI introduction of the idea of responsible borrowing through the DSF have led to only minor alterations to the understanding of debt sustainability and of the action required by the IFIs on this issue. Aided by the tractability of the issue, the creditor states have had a high degree of control over this aspect of the initiative.

### Poverty Reduction-centred Development Strategies

There are striking similarities between the contexts within which the G7 made their initial pronouncements on the issue of poverty reduction and on debt sustainability as outlined above. As with debt write-off, there was an element of the G7 'preaching to the choir' by calling for the Bank to ensure that a focus on poverty reduction was tied-in to the forthcoming initiative, whereas the call to mainstream poverty reduction was less amenable to the operating procedures of the Fund. As the initiative has been rolled out, the lofty ambitions for PRSPs as articulated by the IFIs have generally not been met by the analytical quality of the Papers produced, which has led the IFIs to represent their role in this aspect of the PRSP initiative as providers of capacity strengthening measures to assist countries to move toward a poverty reduction-centred approach to development over a longer time-frame. Unlike debt sustainability, which was rapidly given an unambiguous meaning requiring a monitorable response from the IFIs, the role of the IFIs in mainstreaming poverty reduction in the PRSP initiative has remained relatively fluid.

Although the G7 made the call to the IFIs to ensure that poverty reduction was at the centre of what was to become the PRSP initiative back in 1998, within the World Bank a 'poverty reduction agenda' had been growing incrementally for some time. A change occurred whereby the Bank moved from a view of development as coterminous with rising GDP per capita, to a broader view whereby, although rising GDP is still seen as vitally important, it is as much due to the links between economic growth and poverty reduction, democratisation, and sustainable development than as simply an end in itself (Pender 2001: 403–7; Vetterlein 2006: 126–8).<sup>10</sup> Because of the importance of the Bank in 'shaping the boundaries and nature of mainstream development debates' (Mawdsley and Rigg 2002: 93), such changes can be considered to have helped shape the normative context that informed the G7 articulation of 1998. In contrast to the growing view within the Bank that poverty reduction was at the centre of its mission, at the Fund a more ambivalent view was



maintained, whereby poverty reduction was seen as linked in a loose and ill-defined way to its primary mission of maintaining global economic stability (Barnett and Finnemore 2004: 65; Vetterlein 2006: 132). In particular, the intensive focus on distributional concerns that is implied by a poverty reduction-centred approach does not fit well with the Fund's established practice of dealing with data on an aggregate, macroeconomic level (Garuda 2000: 1031).

Against this background, a shift toward the promotion of poverty reduction-centred development by the large quota-holding states can be seen in the late 1990s. It was at the 1998 summit in Birmingham when, under the leadership of the then UK Chancellor Gordon Brown and Secretary of State for International Development Clare Short, the G7 became committed to pressuring the IFIs to institutionalise this approach to development (Christiansen and Hovland 2003: 16). The prominent position in which the commitment of the G7 to the goal of 'achieving sustainable economic growth and development throughout the world [to] enable developing countries to grow faster and reduce poverty' was placed in the Birmingham Communiqué, and the link made to IFI debt reduction a few paragraphs later (Paragraphs 2 and 7), are evidence of this shift. The report of the finance ministers to the summit in Cologne the following year shows a strengthening of the G7 position. Referring to the need to reform the HIPC Initiative, the report urges that

The new HIPC Initiative should be built upon an enhanced framework for poverty reduction ... We call upon the World Bank and the IMF to develop by the time of their Annual Meetings [in six months time] specific plans for such an enhanced framework for poverty reduction. (G7 1999: Paragraphs 4–6)

The G7 had, by mid-1999, laid out a clear call to the Bank and Fund to tie poverty reduction to their forthcoming initiative.

When announced in late 1999, the IFIs clearly stated the ambitious nature of PRSPs. As its name signifies, poverty reduction was to be central to the initiative, and the guidelines of the IFIs suggest that PRSPs should contain policy programmes that were proven to deliver an optimal impact on poverty:

Poverty reduction strategies will identify the priorities for public action that will have the greatest impact on reducing poverty. They should contain systematic and participatory analyses of poverty, short- and long-term tradeoffs of alternative policy decisions, and the impact of proposed reforms on the most vulnerable social groups (IMF & World Bank 1999: Paragraph 2).



The call from the G7, therefore, was more than met in the language of the IFIs. As the initiative was rolled out, however, further inputs into the evolution of this aspect were encountered that have led to a significant re-articulation by the IFIs of their role in relation to promoting poverty reduction within the PRSP initiative.

In spite of the G7 declarations and the optimistic introduction of the initiative from the IFIs, PRSPs have at best represented a minor step toward placing poverty reduction at the centre of development programmes. In a 2003 review of its operations in relation to the PRSP Initiative, the Fund is candid about the weaknesses of PRSPs that had impeded their ability to provide an analysis of different policy options according to their contribution to the reduction of poverty levels within a country.

Poverty and social impact analysis (PSIA) of key reforms ... is an important tool that low income countries should systematically employ in assessing policy choices and tradeoffs. While over time it is expected that these countries will carry out and integrate PSIA into the design of their poverty reduction strategies, they face a number of challenges at present which impede their ability to do so, including data, analytical, and institutional capacity constraints. (IMF 2003: 14)

Although the report calls for assistance from development partners to fill this analytical gap, and affirms the commitment of its own staff to helping indebted country governments in this regard, it concludes that it 'may take some time' before such capacity is built-up (IMF 2003: 9). More recently, the World Bank too has been very open about the weak capacity of both the IFIs and developing country governments to produce analyses of different policy options on the grounds of their contribution to poverty reduction (World Bank 2004: viii). Hence, following the disjuncture between their initial ambitious articulations on the poverty reduction focus of PRSPs and the reality of the Papers, the IFIs have moved to reconstruct their role as one of providing long-term PSIA capacity-building assistance.

The schematic representation of the morphogenic approach in Figure 1 can again be used as a framework around which to present a comprehensive understanding of the process of change in the IFIs. In contrast to the issue of debt sustainability, the issue of poverty reduction progressed along the loosely controlled, left-hand side of the morphogenic model. The cycle begins with the shift toward an explicit focus on poverty reduction within the Bank (Interaction I), which contributed to the elaboration of a social environment in which poverty reduction was understood to be a pressing global issue, potentially requiring action from the IFIs. This structural context conditioned the 1998 calls from the G7 for the IFIs to implement a poverty reduction framework, and the IFIs' setting of a rigorous benchmark for the poverty



reduction analysis within PRSPs (Interaction II). However, despite the rhetorical strength of the announcements, a clear understanding of 'poverty reduction' or of the action required by the IFIs was not constructed. This opened the potential for significant operational flexibility, and for the traditional ambiguity of the Fund to distributional concerns to come into play. As the third set of interactions unfolded, the IFIs have moved to redefine their role in the promotion of poverty reduction-centred development as providers of capacity strengthening measures to indebted countries, justified through reference to the low analytical quality of the original Papers. In so doing, they have moved to significantly alter the understanding of their role in the promotion of the poverty reduction-centred conceptualisation of development, and have downgraded the extent to which this aspect of the initiative represents a significant shift in IFI practices.

### **The 'Participatory Turn' of the IFIs**

Moving on to the third, and final, aspect of the PRSP Initiative to be analysed, I now consider the promotion of broad societal participation in the formation of restructuring programmes. As with the two aspects of the PRSP initiative examined above, the Fund was initially something of a reluctant partner in the 'participatory turn', where again the Bank and NGOs contributed to shaping the intersubjective context that conditioned the G7 articulations on this matter. As the evolution of the 'participatory turn' progressed, resistance from some indebted country governments highlighted the internal tension between IFI support for broad participation and their avowed apoliticism, which led to a significant hollowing-out of the participatory aspect of the PRSP initiative.

Prior to the calls from the G7 for the IFIs to encourage greater participation in the formation of restructuring programmes, some support for participatory activities existed in the Bank. Changes in Bank practices in this area can be traced to the early 1990s, when the Bank began to both engage directly with civil society organisations and to encourage governments to include them in decision-making processes (Harrison 2004: 123–4; Pincus and Winters 2000: 12). NGOs, through their highly critical campaigns from the early 1980s, were an important driver of these developments at the Bank (Weaver 2008: 66).

The calls from the G7 to incorporate a greater focus on participation into their practices thus followed the nascent practices of the Bank. The G7 Finance Ministers' statement at the Cologne summit in mid-1999 sent a clear signal to the IFIs regarding the promotion of participation, and this message was



sustained through the period of IFI planning preceding the announcement of the PRSP initiative. The Cologne statement declared to the IFIs that

Throughout programme design and implementation, there should be consultations with broader segments of civil society. Such dialogue will be the basis for deepening the sense of ‘ownership’ [of adjustment programmes] with governments and citizens in debtor countries. (Paragraph 5)

Advocacy from within the G7 for the inclusion of a participatory requirement in the enhanced HIPC arrangements continued in the run-up to the announcement of the initiative. One month prior to its announcement, at a joint World Bank-IMF conference on the modalities of debt write-off in August 1999, the UK submission reiterated that greater programme ownership must be a ‘key objective’, to be primarily accomplished through in-country consultation during the design of programmes (IMF 1999: 140).

When the IFIs announced the initiative in 1999, the G7 articulations on the desirability of a participatory requirement were reflected in their guidelines for the processes surrounding PRSP formation. In a guidance note of early 2000, issued to clarify the scope of the initiative, it was stated by the IFIs that

Poverty reduction strategies are expected to be country-owned and designed in a participatory fashion, taking into account the views of Parliaments and (where they exist) other democratic bodies, the donor community, civil society and specifically the poor themselves. (World Bank and IMF 2000: 1)

At the point of the launch of the PRSP initiative, then, the G7 and the Bank can both be seen to be supportive of the inclusion of the promotion of broad based participation in the formation of restructuring programmes. Simultaneous developments were occurring in the IMF, through which the Fund also began to conceptualise broader participation in the formation of restructuring programmes to be of central importance to the accomplishment of its mission.

Within the Fund, support for broadening participation has strengthened from around the time of the PRSP launch because of the links that are thought to exist between participation in programme formation, ‘ownership’ of a programme, and its successful implementation.<sup>11</sup> Following the production of a number of assessments by the Fund outlining the low implementation rates of ESAF restructuring programmes (Killick 2002: 5), a large amount of research was undertaken into the issue. The proliferation of staff papers on the issue since 2001 is illustrative of this movement (Cordella and Dell’Ariccia 2001; Khan and Sharma 2001; Boughton and Mourmouras 2002; Boughton 2003; Ivanovna 2006), as are the recently updated staff guidelines outlining the

benefits that are likely to accrue from broader in-country consultation (IMF 2008).

Despite the growing support of the Fund, it is readily admitted by the IFIs that the participatory processes surrounding the formation of PRSPs have varied substantially from country-to-country, and that 'in general, the process has not generated meaningful discussions ... of alternative policy options' (IMF 2004: 3). By approving such PRSPs as providing an acceptable basis for debt reduction, the IFIs have tacitly hollowed-out the 'process conditionality' within the initiative.<sup>12</sup> As acknowledged by the Bank and Fund themselves, the reason for this outcome lies in the tension between the promotion of participation and their status as apolitical institutions. The Articles of Agreement of the Fund and Bank preclude them from taking into account a consideration of domestic political factors when making loan arrangements, and this practice is well established in both institutions (Manzo 2003: 444).<sup>13</sup> To penalise countries for insufficiently fulfilling the PRSP process conditionality would challenge this cultural tenet. This tension, as is noted in an IMF review of the PRSP Initiative, contributed to the IFIs' failure to specify what 'broad participation' should imply (IMF 2004: 23). Although moves by the IFIs to depart from the norm of apoliticism and to proactively work toward engaging a broader range of domestic actors can be seen, especially so by the Bank,<sup>14</sup> the PRSP initiative has not been used as the vehicle through which such a change is operationalised.

A comprehensive understanding of the evolution of the participatory requirement can be advanced by drawing on the framework outlined in Figure 1. As was the case in relation to the previously examined aspects, the Bank (Interaction I) contributed to the elaboration of a social environment in which the promotion of broad participation by the IFIs was seen to be desirable. This structural context informed the G7 calls for the institutionalisation of broader participatory practices by the Bank and Fund, and the setting by the IFIs of 'broad social participation' as one of the PRSP requirements (Interaction II). However, a precise definition of participation, and, vitally, of the role of the IFIs in promoting this aspect of the initiative, was not set out: thus, this morphogenic cycle bifurcates to the left-hand path of Figure 1, with later interactions leading to significant alterations of the understanding of this issue and of the IFIs' role within it. Subsequently, as Papers were produced by indebted country governments that were inadequate in terms of the participatory process requirement, the IFIs' established apoliticism has led to a significant hollowing-out of this aspect of the initiative. As was the case with poverty reduction, the high degree of 'wriggle-room' that was left in the initial understanding of the participatory requirement meant that the input of borrowing countries and the internal culture of the IFIs was of greater importance in determining the path of change.



## Conclusion: The Morphogenic Model of Change in IOs

Change in the practices of the World Bank and IMF is a multilevel process, through which the interactions of creditor states, the IFIs, and (to a lesser extent) borrower states shape dynamic understandings about desirable and appropriate action. Because of the complexity of the process, it is necessary to adopt a flexible analytic framework capable of capturing the iterative process whereby interactions both shape and are shaped by the social environment in which they take place. The Archerian morphogenic cycle offers such a framework, around which the mechanisms that have shaped the evolution of the PRSP initiative can be holistically viewed. Figure 1 provides a schematic representation of the analytic framework. Using a morphogenic model to synthesise the agential influence of state preferences and the structural influence of social environments, the insights of the two dominant approaches to the study of IOs can be incorporated to provide a more nuanced analytic framework for comprehending contemporary processes of change within international organisations.

At the beginning of the cycle (Interaction I), we find a subtle — and often unexamined — source of IO influence into the process of change, as they are able to contribute to the elaboration of the understanding of an issue within a social environment. The Bank in particular was ‘ahead of the curve’ in relation to each of the three core aspects of the PRSP initiative, as its existing practices conditioned the initial social environment of each of the morphogenic cycles. It is only by acknowledging this structural context that the contribution of IOs to the process of change can be comprehensively understood.

Regarding creditor states, the fact that each of the articulations made through the G7 forum were incorporated into the structure of the PRSP initiative as announced by the IFIs in late 1999 shows the central role held by creditor states in fixing the agenda for change. However, at this stage (Interaction II) there is an important bifurcation in the morphogenic cycle. Where the interaction of the G7 and the IFIs produced a precise definition of an issue, and the action required by the IFIs to address this issue was measurable, the cycle progressed along a path over which creditors were able to exert a significant degree of control. The issue of debt reduction followed this right-hand path, whereby the tight understanding that emerged enhanced creditors’ ability to push for the extension of the level of debt reduction against the desires of both the Bank and Fund. By looking inside the IFIs and examining the bureaucratic culture, we can understand why there was resistance,<sup>15</sup> but by considering of the tractability of debt reduction we see that this was an issue in which creditors held the upper hand. Hence, the further interactions within this cycle (the extension of debt relief and the introduction



of the DSF) led to only minor modifications to the understanding of the issue and of the action that was required by the IFIs.

In contrast, when the interaction of creditors and the IFIs led to the emergence of a loosely defined issue and the requisite IFI action was not easily measurable, an evolutionary path developed over which creditors had a reduced capacity to exert control. Along this path the internal bureaucratic culture of the IOs, and the interactions between the IOs and borrowers, assume a greater importance in determining the process of change.<sup>16</sup> The loosely defined understandings that emerged of 'broad participation' and 'poverty reduction' and of the role of the IFIs in promoting these goals set these aspects of the initiative along this left-hand course in Figure 1. In relation to the 'participatory turn', we see that the internal tension between a belief in the benefits to be gained from broader participation and the traditional apoliticism of the IFIs, when confronted by inadequate consultative processes in indebted countries, resulted in a significant hollowing-out of the participatory requirement within the initiative. In relation to the centrality of poverty reduction in the initiative, we see that the challenges indebted countries faced in producing PRSPs containing robust poverty impact analysis led the IFIs to shift from an ambitious to a more limited policy response of longer term capacity building. It is reasonable to suggest that the lack of a fit between 'poverty reduction' and the established goals of the Fund contributed to the watering-down of this aspect of the initiative. In each of these instances, then, a loosely defined initial understanding was followed by significant alterations to the understanding of the issues, in the form of a hollowing-out of the participatory process requirement and a dilution of the poverty reduction requirement of the programmes contained within PRSPs.

The morphogenic model provides a clear analytic framework around which the insights of the PA and constructivist approaches can be combined. An important insight of the constructivist approach — that contests over the meaning of policy problems and appropriate responses is a central component of change in IOs — is central to understanding the evolution of the core aspects of the PRSP initiative. In each of the aspects, we see that the IFIs played a role in shaping the structural context that informed the initial G7 articulations, and thereby exerted a subtle influence on the path of change. In addition, while the PA approach highlights the conditions that allow for creditor control or IO autonomy, the constructivist approach is useful in understanding the direction in which autonomy is used. By conceptualising change as a continuous, dynamic process of structural conditioning/social interaction/structural elaboration, the morphogenic approach allows for the insights of the PA and constructivist models to be synthesised so as to capture the key mechanisms at work in the evolution of the PRSP initiative. Using this framework, the focus of the PA approach on the agency of states acting to pursue exogenously given



interests can be combined with the constructivist foregrounding of the importance of intersubjective structures, to successfully advance our understanding of the process of change in IOs. As this analysis of the evolution of the PRSP initiative has demonstrated, change in IOs is an intricate, multilevel process, which requires IO scholars to adopt more flexible analytic frameworks in order to capture its complexity.

## Notes

- 1 Many thanks are owed to André Broome for his help and advice on this article, and to several members of the postgraduate community at POLSIS who read and commented on earlier drafts. I am also grateful to the editors and reviewers at *JIRD* for their detailed comments and insightful suggestions.
- 2 Thanks are owed to the individuals who participated in interviews during my research in late 2008, including in particular several executive directors and senior members of staff in both institutions who were very generous with their time.
- 3 I am guided here by the ideas put forward by Johnston (2001: 488) regarding the 'social environment' of IOs, and his central thesis that change in the behaviour of actors, including state actors, 'may have a lot to do with socialisation'.
- 4 The important influence of 'bureaucratic culture' on the adaptability of the IFIs was brought up on a number of occasions, unprompted, during interviews with both Bank and Fund staff. The interpretations put forward cohere with the accounts referred to above.
- 5 I have developed the morphogenic model by drawing on the lessons learnt from the case study of the PRSP initiative, and as such it is best viewed as an 'organising perspective' that facilitates the exploration of complex issues and provides a basis for future refinement (Rhodes 1997: 5).
- 6 It must also be noted that although he is often credited with pushing multilateral debt reduction forward, opposition to 100 per cent reduction was voiced by the Bank during Wolfensohn's presidency. The tension between debt relief and the Bank's ability to contribute to poverty reduction was perhaps felt particularly keenly by Wolfensohn, with his strong and very public support for both goals.
- 7 See, for example, James Wolfensohn's welcoming of debt reduction through the HIPC initiative as being complementary to the Bank's developmental mission and 'very good news for the poor of the world' (1996).
- 8 This point was also made during an interview by a World Bank country economist for one of the HIPC's, who discussed the promises of George W. Bush to reform IDA's operations so as to 'not just drop the debt, but stop the debt' (2001) in terms of their potentially fatal implications for IDA.
- 9 Indeed, Fund publications on debt relief continue to treat this as an open question, yet to be adequately resolved by empirical research (e.g. Clements *et al.* 2008).
- 10 The important contribution of James Wolfensohn (Bank President from 1995 to 2005) to the broadening the developmental agenda, particularly through his efforts to recruit staff from a wider range of academic and professional backgrounds, was noted by a number of senior World Bank members of staff during interviews.
- 11 It has been suggested (e.g. Lazarus 2008) that the Fund's 'participatory turn' was an attempt to counteract its perceived legitimacy crisis in the late 1990s. While this may have been a contributing factor, I suggest that, because of its fit with the technocratic, evidenced-based culture of the Fund, the growing 'political economy' knowledge regarding the participation-ownership-implementation nexus is of deeper significance.



- 12 The term 'process condition' is used by Frazer (2005: 318) to describe the participatory requirement within the PRSP initiative.
- 13 In relation to the Fund see Article XXXI Section C Paragraphs iv and vii, and in relation to the Bank Article IV Section 10.
- 14 Through in particular the Governance and Anti-Corruption (GAC) agenda, the Bank seems to be proactively engaging civil society to support reform efforts. An interview with a Bank member of staff working on GAC shed an interesting light on the tension between GAC and the Bank's traditional apoliticism. When questioned on this issue, the interviewee responded that: 'Some Country Directors hide behind the Articles of Agreement, but this [GAC] has support from the top'. Creditors' recent establishment of a US\$100 million Governance Partnership Facility to support GAC civil society outreach, and the creation of a monthly Governance Council that is chaired by the Bank President or a Vice-President, suggests that the Bank is in the process of becoming more involved in domestic governance reform. Though representing a challenge to its established apoliticism, the Bank justifies this shift in terms of its central mandate: '[The Bank's] focus on governance and anticorruption (GAC) follows from its mandate to reduce poverty — a capable and accountable state creates opportunities for poor people, provides better services, and improves development outcomes' (World Bank 2007: 1).
- 15 Broadly, resistance came because extended reduction was understood by both the Bank and Fund to be detrimental to their ability to pursue their central missions.
- 16 It is conceivable that further interactions between creditors, the IFIs, and borrowers could lead to the elaboration of a tightly defined understanding of an issue requiring easily monitorable IFI actions, and so there is a route from the left- to the right-hand paths. However, neither of the looser aspects of the PRSP initiative that were examined followed this route.

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